

CLASSIFICATION IN FIRE INSURANCE.

Insurance of all kinds is a business of contingencies, controlled entirely by chance. Fire underwriting is especially so, inasmuch as it provides for a multiplicity of risks, all more or less subject to injury by fire at all times, and in all seasons, from causes known and unknown. But just why or wherefore they are so liable, and to what extent, in all cases recorded, fire insuring experience yet presents no satisfactory explanation, though the factors in such an experience are neither few nor difficult to be found.

Life insurance, on the other hand, the youngest of the three branches, covers but a single risk—death—and a single contingency—when will it occur? To meet this risk, and to provide for this contingency it has at command a perfected system of combined "Mortuary Statistics," elaborated with great care, and gathered largely from the individual experiences of its officers, thus leaving but little to the judgment of officials in the selection of risks, beyond the report of the Medical Examiner, upon which the applicant is accepted or rejected as the matters of age, health, etc., may or may not approximate the standard required by the tables of combined experience.

In fire underwriting, while there has been no lack of individual mortuary experience, from the earliest days of fire insurance to the present time, unfortunately for all concerned, there have been no tables of "combined experience" formulated therefrom, by which the fire hazard of any class of risks can be traced, or the desirability of any given class, as an insurance risk, can be learned. Hence it follows, naturally, that success or failure in this branch of underwriting now is, and ever has been, to a great extent, if not quite entirely, the result of chance or "luck," controlled by the personal experience and judgment of individual managers, rather than as the results of any combined experience as among life offices.

The fire insurance hazard,—apart from the "moral hazard," which is, and ever will be, the "unknown quantity" in the computation of causes of fire loss,—may be divided into two primary classes, viz.

1. *Inherent*, or internal, that which appertains exclusively to the risk, from its nature and occupancy, and necessarily renders it more or less liable to the occurrence of fires from any cause, within itself.

2. *External*, or relative, that is, something outside of itself by which fire may be communicated to and consume it, independently of any circumstances attending itself; for it is not alone against the hazard incident to the premises covered, that the underwriter insures, but more or less against all hazards, single and combined, of neighboring buildings and their occupancies.

The inherent hazard of a risk, ascertained by its fire destructibility, is the standard of its classification, when standing by itself, unexposed by outward hazards. The premiums demanded are proportioned to the losses sustained by each class, as developed by its fire history; and when outside exposures of any kind exist, by which the ratio of hazard is increased, the premium rate will be enhanced in proportion.

In classifying the business fire insurance, that is, in recording the experience upon each class of risks as an insurance subject, something more must be known than that so much money was received for premiums and so much paid for losses thereon, whether the former was in excess of the latter, or vice versa. It must be known just why any given class of risks burn, or is likely to burn, and this can only be learned from diligent inspection and constant observation and comparison, as cases occur—in fine, a study of its fire destructibility.

Nor is this all that is needful: very many risks burn from external causes, such as fire communicated by other buildings more or less remote, or accidents upon the premises itself, not inherent to the risk, but by which any other class of risk might be set on fire under similar circumstances,—a planing mill might be set on fire by the burning of a church in the neighborhood, or its owner might set it on fire, or an incendiary might apply the torch and the mill be consumed. This would, in classification, be a planing mill loss, but not one arising from its own inherent hazard, and not necessarily making it a bad risk. Hence, in order to provide for such contingencies, and that the risk may not be charged with losses for which they are not, in themselves, responsible, there must of necessity be a classification of the *causes* of fire, showing just why the risk burned, as well as a classification of the risks in the order of their fire history. By such a classification of *fire causes*, where so many mills have been burned during the year, and it is learned that, say, out of 10 mills, only two were burned from inherent causes peculiar to that class—the remaining eight mills burning from dishonest or accidental causes, or from neighboring exposures, and this continued for a series of years, there can be little difficulty, under such a classification, of arriving at an adequate rate for any and all classes of risks, based entirely upon their fire histories.

In attempting to classify fire hazards and losses so as to be available for all practical purposes, without costing so much as to be prohibitory, the data should be confined to matters within the scope and experience of the office, for no system can be made so minute as to embrace everything in detail, that might be legitimately brought under notice, without becoming too cumbrous and unwieldy to repay the labor bestowed upon it,—only the more marked and distinguishing characteristics of the several risks can be classified: What has been called the fire destructibility should be carefully studied, so as to learn why and wherefore each and every class of risks is inherently liable to, and does actually burn, so that when thus known the risks may be treated according to their several fire histories.

It is a matter of small account to a company to know that just so many flour mills, saw mills, cotton mills, etc., insured or uninsured, had been consumed by fire within a given period of time. To make such a record of any practical value to the Company something more of the history of the risks should be known: Were they insurable or not? What was the cause of the fire? Internal or external hazard? Did they burn because they were such mills or from accidental or external causes? And until fire underwriters gain a fair knowledge of these inherent hazards, upon which classification should be based, and their tendency to ignition, as compared with other more remote causes of loss, they have small knowledge upon which to base fair and legitimate rates of premium.

Statistics, however, without the proper experience how to apply them practically, will be of little use. "Given statistics alone, a Company might starve or pass off in a peaceful season of dry rot; but add to them sound judgment and great practical experience, and we have the very acme of underwriting attainments."